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2 Individual and business planning

2 Individual and business planning

2.1 Overview

2.1.1 Managing your money

We all like to have money to spend. We would all like to be wealthy and be able to buy whatever we like. Unfortunately, very few of us have that luxury. As individuals we need to be thinking about where we will earn the money we need, and how we can manage it to get the best value from it. Even if you get a well-paying job as you get older, it is unlikely you will have more money than you require to satisfy your needs and wants. Careful planning and management of your money is always going to be important, whether as a teenager or in the future as an adult with family responsibilities.

Video

The life and times of money

Many people choose to earn money by going into business. If you have particular skills or a good idea for a business, there can be many benefits in choosing to go down this path. Business owners also find that careful planning and management of money is essential if the business is to be successful. No business owner wants the business to be losing money for

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any length of time. It is important to identify any problems before the business runs the risk of going broke and leaving the owner in debt. Of course, if the business is successful, the business owner also needs to know how much profit it is making. Keeping thorough records is essential for all business owners.

Figure 1 Careful planning and management of our money can help us to satisfy our needs and wants.

Several studies have shown that, beyond a certain point, having more money does not bring increased happiness. What do you think of these studies? Should we pursue other things in life as well as money? [Personal and social capability]

2.2 Short-term personal financial goals

2.2.1 Benefits of saving

Do you wish you could save more money? Are you the type of person who burns through their money fast? Money is great to have but it won't last long unless you make wise choices. If you keep track of your money and spending habits, you can make your money work for you. You may not realise it, but saving money is quite easy. By putting aside even a small amount on a regular basis, you will be amazed at how soon you can build up your wealth. Then you will have more cash available to buy those things you really want!

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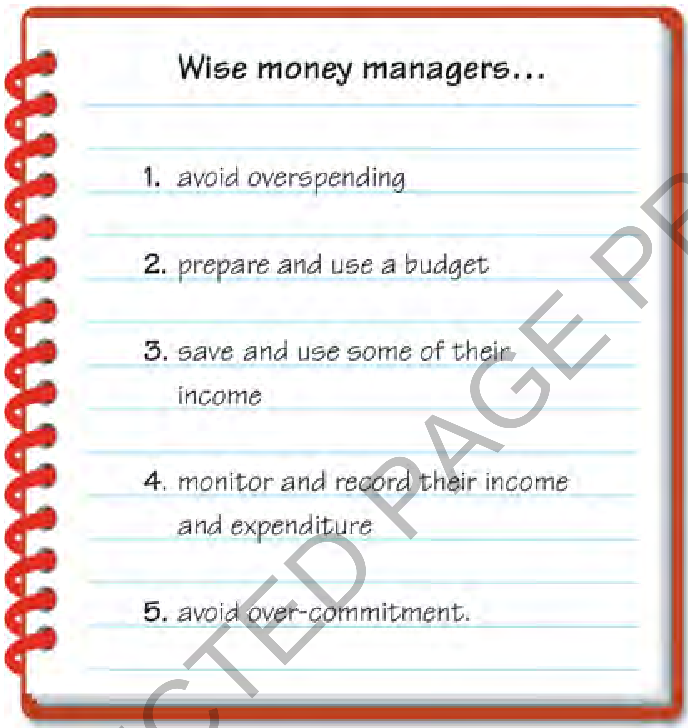
2.2.2 Managing your money

It is easy to get carried away with spending. There are so many advertisements deliberately targeting young people. Because we all have a limited supply of money, we all need to become wise money users. Look at the tips for being a wise money manager in figure 1. Is it an accurate description of the way you use money?

Figure 1 Tips for being a wise money manager



You are never too young to start becoming money wise. During your life you will face many complex **financial** choices. You need the skills and knowledge to ensure you make effective decisions about managing and using your money. If you are money wise, you will be able to make the most of your opportunities and meet your responsibilities throughout your life.

2.2.3 Becoming money wise

With a bit of planning, you can become a smart money user. The first stage is to realistically examine your current financial position. What money do you have coming in? What are your regular expenses? Do you have any money left over after covering your expenses? You can start your planning by following the steps illustrated in figure 2.

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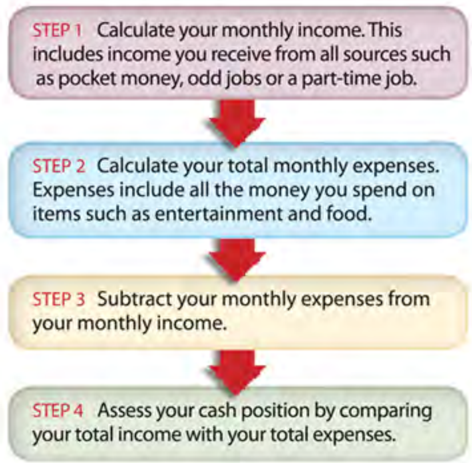
Figure 2 Four steps to becoming money wise



If you extend these steps to cover several months of income and expenses, you will gain a more complete picture of your spending and saving habits. Table 1 shows the income and expenses of Tiffany, a 13-year-old Year 7 student. Can you see some possible savings? Can you see the possibility of extra income?

Table 1 Tiffany's income and expenses

	January	February	March
Income	$	$	$
Pocket money	45.00	45.00	45.00
Odd jobs	20.00	15.00	5.00
Allowance from grandparents	15.00	15.00	15.00
Total income	80.00	75.00	65.00
Expenses			
Magazine	5.00	5.00	–

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	January	February	March
Income	$	$	$
Fast food	30.00	25.00	20.00
Mobile phone	10.00	10.00	10.00
Games	20.00	25.00	15.00
Total expenses	65.00	65.00	45.00
Cash remaining (income – expenses)	15.00	10.00	20.00

2.2.4 Why save?

Wise money managers know that saving money:

- gives them more independence and security
- gives them a sense of satisfaction
- helps them pay for unexpected expenses
- avoids the need to borrow money and the worry about repaying the debt
- helps them plan for buying big items, such as a bike or a car.

For most people, the most common reason to save is to be able to buy something they really want. For example, the latest PlayStation 4 (PS4) controller costs around $90, and most young people would not have that money lying around. The answer is to save the money you need over a period of time, and the best way of doing this is to set clear financial goals.

Video

Compound interest

2.2.5 Setting financial goals

It is easier to save money if you have clear financial goals in mind. You probably have some ideas about the type of things you want now. However, you might find it hard to think far ahead and work out what you will want in the future. The good thing about setting goals is that they give you a purpose for saving. Some of your goals will take longer to reach than others.

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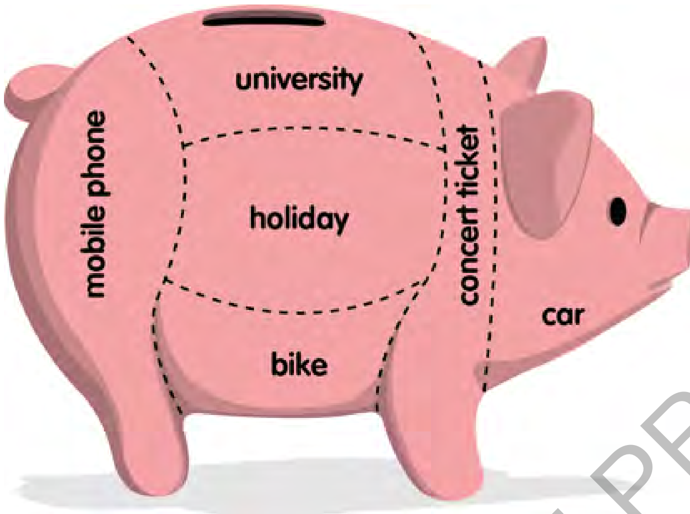
Figure 3 Saving can become easier if you have clear goals.



Tips for goal setting

- Goals should be realistic or you will become discouraged.
- Goals should be specific. For example, 'My goal is to save $200 in six months for a computer game.'
- Avoid vague goals (such as 'My goal is to get rich') because their exact meaning is unclear.

To save the money needed to buy a new PS4, you will need a **budget**. A budget is a plan for the future. It is a way of planning your finances to ensure that you have enough money to meet your future needs. Most people prepare a budget to manage their personal finances. Families, businesses and governments also use budgets. The aim is always the same: planning to ensure that expected income (estimated cash receipts) will match or hopefully exceed expected expenses (estimated cash payments).

2.2.6 The purpose of a cash budget

A cash budget is based on the principle that spending must be carefully planned so there will always be money to cover needs and wants. It is an opportunity to reflect on your spending habits and find the areas where you think you are spending too much. A lot of people prepare a budget so that they have extra cash available for something special, such as a PS4 or a new car. In most parts of Australia, you can get a part-time job in a supermarket or fast-food restaurant when you turn 15. Other jobs, such as delivering newspapers, are available at a much younger age. If you started saving as soon as you found a part-time job, do you think you could save up enough to buy a car when you turn 18? Many young people have successfully achieved this goal.

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Figure 4 Having enough money to buy your first car is not just a dream — you could do it if you start saving as soon as you find a part-time job.

2.2.7 How to prepare a cash budget

First, look at your spending habits and give careful consideration to your needs and wants. Your needs are whatever is essential for survival, so it can be difficult to reduce these expenses. Wants, on the other hand, are things that you desire rather than need. Although it is important that we satisfy some of our wants, this is the area of spending that is first to be cut back because we can live without satisfying all our wants.

Second, consider where your cash is coming from. Are you earning money? Do you have a job, or do your parents give you pocket money? Are there ways you can increase your income? Once you have worked out your receipts of cash (money in) and your payments of cash (money out), you need to put the information together as shown in figure 5.

Figure 5 Four steps to working out a savings plan

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Let us have another look at the typical income and spending patterns of Tiffany, the Year 7 student (see table 1). Tiffany has decided she wants to buy a new PS4 controller in three months' time, at a cost of $90. She has offered to do some odd jobs around the house for her parents to maintain her income of $20 per month from this source. She has also decided she can cut back on some spending by reducing her fast-food purchases, limiting her game purchases to $20 per month and cancelling the magazine purchase. Table 2 shows what Tiffany's budget for three months might look like.

Table 2 Tiffany's budgeted income and expenses

	April	May	June
Income	$	$	$
Pocket money	45.00	45.00	45.00
Odd jobs	20.00	20.00	20.00
Allowance from grandparents	15.00	15.00	15.00
Total income	80.00	80.00	80.00
Expenses			
Fast food	15.00	15.00	15.00
Mobile phone	10.00	10.00	10.00
Games	20.00	20.00	20.00
Total expenses	45.00	45.00	45.00
Cash remaining (income – expenses)	35.00	35.00	35.00

After three months Tiffany will have saved $105, so she can not only buy the controller but has $15 left to put towards her next savings goal. Mission accomplished!

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Figure 6 After three months of managing her budget, Tiffany was able to buy a new PS4 controller.

2.2.8 Your turn

Activity

2.3 Long-term personal financial goals

2.3.1 The benefits of a savings program

If you speak to your parents and teachers, they will tell you that starting a savings program early in life can mean the difference between a good lifestyle in retirement and having to watch every dollar you spend. A large part of your adult life is likely to be spent in paid employment — over 40 years of work is quite possible. At some stage you will want to retire and enjoy a more relaxed lifestyle, so the time will come when you need to prepare financially for retirement. Although you have over 50 years before you will be retiring and accessing your **superannuation**, saving for your eventual retirement will become an important goal once you reach adulthood and take on a career.

2.3.2 Saving for retirement

Until recently, the standard retirement age was 65 years for men and 60 years for women. The federal government abolished any age limit on retirement to encourage older workers to remain in the workforce. (Part of the reason for this is that Australia, like many developed countries, has a rapidly ageing population and a declining birth rate.) A person can retire

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when they choose, but they need to be able to pay for their living expenses once they are no longer earning a wage or salary.

Figure 1 In retirement, people still have to be able to pay for their living expenses.

When a person retires, they may be able to access an **age pension** in order to survive. This is an amount provided by the federal government. It does not allow for a luxurious or comfortable lifestyle, and may only be sufficient to pay for basic needs. In the years ahead, as average life expectancy increases, the minimum age at which a person can access the pension will be raised. The current minimum age for accessing the age pension is 65 years, but from 1 July 2017 this will be extended to 65.5 years. From then, the pension eligibility age will rise by six months every two years until it reaches 70 years of age in 2035.

Those who have the financial resources to do so are well advised to plan ahead for retirement, so they can be **self-funded retirees**. This means putting aside money now (while you are young and able to work) for when you get older and no longer have a regular income.

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Figure 2 Those who have the financial resources to do so are well advised to plan ahead for retirement.

What is superannuation?

Superannuation is a compulsory savings scheme whereby employers contribute an additional percentage of an employee's **gross wage** into a **superannuation fund**. Employees can also choose to contribute to this fund, thus increasing the overall amount they will receive on retirement. How much any employee chooses to contribute is up to them. There are laws in place that determine the age at which you are eligible to access your superannuation savings. Anyone born in the past 50 years cannot access their superannuation before 60 years of age. By this age there may be 40 years of contributions in the individual's fund, so this may be enough to fund retirement. Any extra contributions the person makes during their working life can help achieve this goal.

Figure 3 At each stage in a person's life, the amount needed for expenses changes. It is vital to have a financial plan that includes saving for the retirement stage.

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2.3.3 Buying a house

For most people, buying a house will be the largest purchase they make in their lifetime. A house is also an investment for the future. Property almost always increases in value over the long term. In many parts of Australia's larger cities, houses that cost less than $100 000 to buy 25 years ago are now worth over a million dollars. Most people value the security of owning their own home, particularly when raising a family or as they approach retirement age.

Purchasing a house usually involves taking out a **mortgage loan**, with the property itself used as security for the loan. (This means the bank or other lender can take possession of the property if the borrower fails to make the regular payments.) In most cases the loan has to be repaid over 20 years or more, with regular monthly payments. It is a long-term commitment, and you need to make sure that you are earning enough to keep up the monthly payments. Because you are paying **interest** on the loan over a long period, the total amount you eventually pay can be as much as three or four times the amount actually borrowed. Throughout the term of the loan, most people find that their wages increase, so the monthly repayments take up a smaller proportion of their earnings as the years progress. Many people find it worthwhile to pay back more than the required minimum monthly payments. This way they save on interest by paying off the loan early.

Figure 4 The purchase of a house can be a great investment for the future.

Increasing house prices have meant that a whole generation of Australians are struggling to own a property. Do you think that high house prices are good for society? Which members of society would respectively want lower and higher house prices? [Ethical capability]

2.3.4 Investing in shares

Many Australians choose to invest their money by buying shares. This means that they buy a certain number of units of ownership in a company. Note that when a person starts up a business, they may start small and only put their own money into it. If the business is successful and they want to expand, they can do so by inviting other people to put money into the business. These people will then become part owners of the business, or **shareholders**. When businesses become really large, they can sell shares to the general public to raise funds. Some large businesses today have thousands of shareholders, and because these shares have value, people can buy and sell them just as they would any other goods. As the value of a company's shares goes up or down, so too does the value of the person's investment. Owning shares means you benefit from the company's profits, which can be given to you as **dividends** or as extra shares. You may also benefit from **capital growth** if the value of your shares increases.

Buying and selling shares takes place through the Australian Securities Exchange (ASX). The ASX was formed in 1987 by amalgamating the six capital-city stock exchanges. A stockbroker has direct access to the market for trading shares and, for a small fee, acts as an agent to buy and sell shares on behalf of the general public.

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Figure 5 Stockbrokers buy and sell shares on behalf of their clients.

Options for your investment

It is an old saying that you should ‘never put all your eggs in one basket’. This applies particularly when investing in shares. If you buy shares in only one company and that company has problems, the value of your shares can drop and you lose money. It is generally advisable to buy shares in a number of different companies as this reduces the risk, and you have a better chance of having some shares that will perform well. There are over 1500 companies listed on the ASX. These companies are involved in a wide range of industries covering most sectors of the economy (from banks to shops and the mining industry), so there are plenty of choices available.

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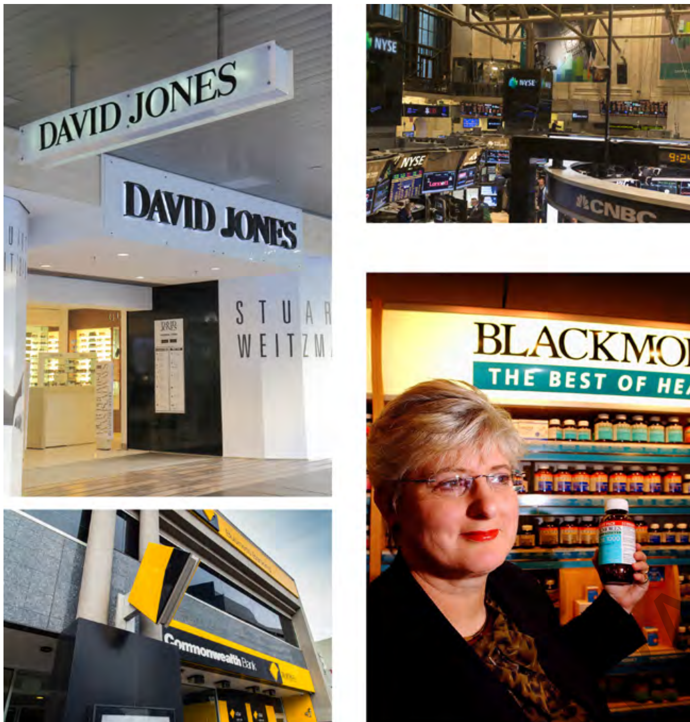
Figure 6 Buying shares listed on the ASX enables you to become a shareholder in a variety of different businesses.



Investing in shares gives you flexibility. Shares can be bought and sold quickly: you can sell shares and generally have access to your money in three days or less. Some other investments can take much longer to sell and convert to cash. You can decide exactly how your money is invested, giving you control over your financial future. Most people choose to share this responsibility with a stockbroker who can give advice on what shares to buy and sell.

Video
Sharemarket basics

2.4 Keeping business financial records

2.4.1 Measuring business success

Katie is very excited. After working in restaurants and other areas of the food industry, she has finally managed to open her own café. She intends to make this her full-time job, so she wants to be able to make a reasonable living from running her own business. This means

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that she will want the business to make a **profit**. For this to happen, she must make sure that money received from selling goods and services is greater than what she has to pay in expenses to run the business. A business may make a profit one day, but may make a loss the next day. As long as her business is making a profit over a longer period of time, it could be successful. In order to measure whether this is happening, Katie needs to keep reliable **financial records**.

2.4.2 Financial transactions

All business activity involves sets of **financial transactions**. Take the example of Katie's Café. Every time the café sells a cup of coffee, a sandwich or piece of cake, it receives money. Every time it buys milk, bread or other ingredients from other businesses, it must pay them. If Katie employs any additional staff, they have to be paid wages. A café also has regular electricity, gas and telephone bills to pay. All of these money-based activities are financial transactions. Katie has to keep a record of them all because she will need information from time to time, to tell her how well her business is performing.

Figure 1 As well as making the best coffee, Katie needs to keep track of her business finances.

2.4.3 Receipts and payments

All of Katie's financial transactions can be classified as either *receipts* or *payments*. Receipts occur when Katie receives money, usually when a customer buys food or a drink from her café. Payments occur when her business pays out money — to one of Katie's suppliers or staff, or to pay the gas, electricity or phone bill. Remember that in order to make a profit, Katie will usually need her business receipts to be greater than her payments, so it is important that she keeps an accurate record of both. In the past, business owners had to do this manually by writing up their records in books called **journals**. Journals are still important, but they are usually not handwritten records any more.

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These days we have technology to help us. By using some simple computer programs, online banking, and business machines such as a cash register and an **EFTPOS** terminal, Katie can record her transactions quickly and accurately. The process of entering and maintaining financial records is called *bookkeeping*, and Katie can buy a program such as MYOB or QuickBooks to help her with this process. These programs set up electronic journals that allow Katie to enter details of all her transactions each day. They are based on spreadsheets and, with all the necessary formulae already entered, Katie simply has to enter her figures and the program performs the necessary calculations.

Figure 2 EFTPOS facilities are essential for any business, and can assist in keeping financial records.

Recording cash receipts

Katie will have a cash register on the counter in her café. Before she opens the café each morning, she will already have some cash in the drawer of the cash register. This is known as a *float*, and it is there so she can provide change to customers if necessary. As each customer pays, the sale is recorded on the register and the cash deposited in the register drawer. The cash register will then print a docket for the customer. She will also have a card reader for EFTPOS and credit card transactions. This reader is linked to the cash register, which also records these transactions. A copy of the EFTPOS docket will be printed for the customer, and a second one for the business. This is usually placed in the register drawer with the cash.

At the end of the day, after she has closed the café, Katie can retrieve a total of her day's receipts from the cash register. She will then add the total of the cash and EFTPOS dockets in the drawer, subtract the amount she had as a float before the first transaction, and it should equal the total amount recorded in the register. She then goes to her computer and enters the figures in the **cash receipts journal** of her bookkeeping software. At some stage she will take the cash to her bank and deposit it in her account.

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Figure 3 Katie will need to update her cash receipts and payments records each day after she has closed the café.

The cash receipts journal could be set out as shown in figure 4.

Figure 4 Cash receipts journal of Katie's Café

Date	Details	Receipt no.	Cash sales ($)	EFTPOS sales ($)	Other receipts ($)	Total receipts ($)
Jan. 3	Sales		460.00	630.00		1210.00
	Refund–A1 Bakery	0003			120.00	
Jan. 4	Sales		340.00	540.00		880.00
Jan. 5	Sales		440.00	590.00	100.00	1130.00
	Soft drink machine sales	0004				
Jan. 6	Sales		450.00	610.00		1060.00
Jan. 7	Sales		430.00	520.00		950.00
Jan. 8	Sales		380.00	580.00		1050.00
	Refund–A1 Bakery	0005			90.00	
Jan. 9	Sales		470.00	650.00		1120.00
Jan. 9	Total		2970.00	4120.00	310.00	7400.00

This journal mostly records the money received by Katie's Café for selling food and drinks to its customers. There are three other transactions recorded. She has an arrangement to pay her local bakery a certain amount per week for bread and rolls, but doesn't always collect the exact quantity each day. On 3 and 8 January, she received a refund from the bakery for using less bread than she had paid for. She has a soft drink vending machine that is owned by the soft drink company in her café. Each week a company rep comes and refills the

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machine with cans of drink and pays her a share of the money collected in the machine. Katie received $100 on 5 January.

You will notice Katie has set up separate columns in her journal for different types of transactions. This enables her to keep track of the cash she has received, the amount directly credited to her account through EFTPOS payments, as well as other money received that is not part of her normal business activities, such as the refunds from the bakery. At the completion of a week's business the computer software has added up the total in each column, showing Katie her total receipts for the week. She will now need to compare this with her payments for the same period.

Recording cash payments

Katie is able to use online banking, so she can make all her business payments from her computer. Each time she does so, the bank provides a reference number as a means of recording the transaction. Katie's bookkeeping software enables her to record each payment just as she did with each cash receipt. The software has a **cash payments journal** set up, with columns to record each type of payment.

The cash payments journal could be set out as shown in figure 5.

Figure 5 Cash payments journal of Katie's Café

Date	Details	References	Bakery ($)	Groceries ($)	Wages ($)	Utilities ($)	Total receipts ($)
Jan. 3	A1 Bakery	346189	500.00				880.00
	Groceries	458214		380.00			
Jan. 4	Elecricity	675312				490.00	490.00
Jan. 5	Groceries	789324		430.00			430.00
Jan. 6	A1 Bakery	876931	500.00				500.00
Jan. 8	Wages	987214			600.00		1010.00
	Groceries	996526		410.00			
Jan. 9	Total		1000.00	1220.00	600.00	490.00	3310.00

As you can see, Katie makes regular fixed payments to the bakery. Every few days she has to buy groceries such as milk, flour and other ingredients for her cakes, as well as cold meats and salad vegetables for sandwich fillings. She employs one assistant at a wage of $600 per week. She also has a column to record the payment of utilities bills, such as the electricity, gas and phone. The bookkeeping software totals up all the columns for her so she can keep a track of each different type of business expense.

2.4.4 Retrieving financial reports

From time to time, Katie will want to find out how her business is performing. Is she making a profit or a loss? Does she have enough cash coming in to ensure that she can pay her

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expenses on time? Her bookkeeping software can make use of the entries in her journals to provide her with the information she needs in different types of reports. Two of these are the *income statement* and the *cash flow statement*.

Income statement

An income statement can tell Katie whether or not her business has made a profit over a period of time. It does so by using the following information:

- The amount of money earned by selling goods and services, known as the business revenue.
- The cost of the materials used in earning that revenue (such as bread, milk, coffee powder), known as the **cost of goods sold**.
- The operating expenses used to run the business (such as wages, gas, electricity).

The first step is to subtract the cost of materials used from the total sales revenue. This figure will give Katie her **gross profit**. She can then subtract the operating expenses from gross profit to provide a figure for **net profit**.

Gross profit = sales revenue – cost of the materials

Net profit = gross profit – operating expenses

Katie's bookkeeping software would produce an income statement as shown in the figure 6 interactivity.

Interactivity

Figure 6 Katie's Café income statement

Interactivity: Katie's Café income statement

The total of all sales revenue was $7190.00. To calculate the cost of goods sold, the money paid for groceries and bread (as shown in the cash payments journal) had to be added, although the actual cost of the bread was reduced by the amount of the refunds as shown in the cash receipts journal. This cost of goods sold was then subtracted from the revenue figure to give the gross profit. Subtracting the total of the operating expenses from the gross profit gives a final figure for net profit. In this case, Katie has made quite a good profit of $4090 this week.

Cash flow statement

As well as determining whether the business has made a profit during the week ending 9 January, Katie needs to know if she has enough cash coming into her business to cover the various costs that will have to be paid. Using the data from the two journals, her bookkeeping software can produce a cash flow statement that provides her with this information.

This statement would be prepared as shown in figure 7.

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Figure 7 Katie's Café cash flow statement

Katie's Café

Cash flow statement for the week ended 9 January 2015

	$	$
Cash inflows		
Total sales revenue	7190.00	
Other cash inflows (bread refunds)	210.00	
Total cash inflows		7400.00
Cash outflows		
Bakery	1000.00	
Groceries	1220.00	
Wages	600.00	
Utilities	490.00	
Total cash outflows		3310.00
Net cash flow		**4090.00**

The net cash flow figure is the amount calculated by subtracting total cash outflows (or payments) from total cash inflows (or receipts). In this case, the figure for net cash inflow was the same as the net profit figure ($4090.00). As the net cash flow is positive, Katie's Café has enough cash to cover her expenses.

2.4.5 Your turn

Activity

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2.5 Business financial planning

2.5.1 Planning to succeed

Anybody who plans to start up their own business needs to spend time planning. This involves setting aims for the business and deciding how those aims can be achieved. A lot of time, energy and money can go into setting up and running a business. Therefore if the owner hopes to make a profit, a good plan is essential.

2.5.2 What is a business plan?

A business plan is a statement of the aims and goals of a business, and all the steps that will be taken to achieve those aims. It is important that the plan be written down so that the business owner can refer to it regularly to check whether or not all steps are being followed. The business plan will usually include the following:

- an *operations plan* outlining how the business will be set up and the staff needed to run it
- a *financial plan* showing how the business will be financed, together with estimated cash flow, revenue, expenses and profit
- a *marketing plan* detailing how the goods or services provided will be advertised and promoted to potential customers.

Of these, the financial plan is particularly important because the business owner will need to raise money to start the business, and will then need a system in place to monitor receipts and payments and produce regular reports on how well the business is performing.

Figure 1 A financial plan is essential to measure the success of the business.

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2.5.3 Financial planning

When commencing a business, the owner must be able to answer the following questions:

- How much money do I need to start up my business?
- Where will I get the money?
- What is it going to cost me each week (or month, or year) to run the business?
- How much revenue must I generate to cover all my costs and still make a profit?

Let's return to Katie's Café and examine how she might have tried to answer these questions.

Establishment costs

These are the costs associated with starting up the business. Katie found an empty shop in a busy shopping centre, and was able to rent it. The landlord demanded the first two months' rent in advance, so that amount had to be paid first. Then Katie had to fit out the shop so that it could function as a café. First she bought tables and chairs, refrigerators and a large industrial stove. Then she had fixtures and fittings installed, such as display cabinets, preparation benches and a serving counter. She also had to purchase equipment including all the food preparation utensils, a cash register and cleaning equipment. The telephone and electricity had to be connected, and she needed a broadband internet connection. All of these had to be paid for before the business could earn a single dollar in revenue.

Figure 2 Establishment costs for Katie's Café include the purchase of suitable furniture.

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Operating costs

As well as her establishment costs, Katie had to estimate what it would cost to run the business once it opened. These are her operating costs. They include the ongoing costs of rent, wages, gas, electricity, water and telephone bills. She also needs to pay insurance and may want to organise advertising, which will also cost money. If she has borrowed money to help her start up the business, she has to repay that loan with regular monthly payments.

Katie must estimate all these costs and be assured that her business will be able to generate enough revenue to cover all the regular expenses. One of the main reasons for business failure is a problem with cash flow, so Katie needs to be realistic by developing a budget for her business as part of her financial plan. The budget can be drawn up using the same layout as an income statement and a cash flow statement, and then entering estimated amounts for all the receipts and payments. Doing this will give Katie an idea of the level of revenue she needs to aim for. If it is likely to take some time to build up a regular customer base, she will need to have money in reserve to cover her expenses during this start-up period.

Figure 3 Operating costs can include marketing and advertising the business.

2.5.4 Sources of business finance

Katie's business plan has to include details of where she will get the money to cover her establishment costs and also meet her operating costs while the business becomes established. She may have some savings herself that she can use but, as this is unlikely to be enough, she will probably need to borrow some of the money needed.

Equity

Equity refers to the money contributed by the business owner to commence and build the business. If Katie had some savings, she may have been able to put these into the business

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to assist with the establishment costs. It is obviously the best form of finance for starting up a business because it does not have to be repaid. In most cases, the amount of equity an owner can contribute is not enough to cover all establishment costs, so borrowing becomes necessary.

Long-term borrowing

Long-term borrowing refers to any loan for a period of more than two years. It is usually used to finance buildings, such as business premises, or expensive equipment needed in a business.

Secured borrowing

Secured borrowing is a form of long-term borrowing. When a person borrows money to purchase a piece of equipment for a business, they can offer the equipment as security for the loan. This means that the bank or other lender of the money can take the equipment if the borrower fails to keep up repayments on the loan. If Katie had decided to buy a shop rather than rent one for her café, she would have taken out a type of secured loan known as a mortgage (discussed in subtopic 2.3.3). She could have used a secured loan to buy the equipment she needed, using the equipment as security for the loan.

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Figure 4 Business owners like Katie often have to take out a loan to finance their businesses.

Leasing

Leasing is another form of long-term borrowing for a business. It is used to provide expensive equipment for a business. Under a lease agreement, the business owner effectively rents the equipment for an agreed period of time, usually around four years. Katie may well have used a leasing agreement to acquire the refrigerators and industrial stove for her café. The owner of the equipment is known as the *lessor*, while Katie would be known as the *lessee*. At the end of the lease period, Katie can either pay an agreed amount to buy the refrigerators and stove outright, or she can return the equipment to the lessor. If the equipment is still in good working order, it may be worthwhile for her to pay to keep it. If the equipment is wearing out, or newer models are available, she may want to take the opportunity to enter a new lease agreement so she can bring in new equipment.

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Short-term borrowing

A business may need to borrow smaller amounts of money at various times to finance improvements to the business or to cover temporary cash flow difficulties. Short-term borrowing would normally be repaid in less than two years. It can include the purchasing of supplies and other products on credit, as well as making use of a bank overdraft.

Trade credit

Many businesses use trade credit as a form of short-term borrowing. Rather than paying for every delivery of supplies with cash, Katie could establish trade credit arrangements with her suppliers. This would mean that she could have regular supplies of fruit and vegetables, milk, coffee beans or powder, cold meats, and so on delivered several times a week, but would only pay at the end of the month. Many businesses operate in this way, particularly if they deal with each other on a regular basis. It is easier to make one monthly payment to cover a lot of smaller purchases rather than having to make lots of small payments.

Figure 5 A café can establish credit arrangements with
suppliers, so one payment covers a number of deliveries.

Bank overdraft

A **bank overdraft** is one of the most common forms of short-term borrowing. A bank allows a person or business to draw out more money from their account than they have in that account. This is called *overdrawing* the account, and the overdrawn amount is known as an *overdraft*. The bank will usually put a limit on the amount that can be overdrawn. An overdraft can be very helpful in managing cash flow. If Katie has to pay a lot of bills for electricity, telephone, rent, insurance and wages all within a few days of each other, she may not have enough money in the bank to cover them all. An overdraft arrangement allows her to pay all

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these bills, paying off the overdraft as she deposits the takings in her bank account over the following weeks.

2.6 SkillBuilder: Conducting a survey

2.6.1 Tell me

A survey is the process of collecting data for the purpose of analysing an issue. It consists of putting a set of questions to a sample group of people. For example, the publishers of a magazine may conduct a survey to find out whether their readers are satisfied with the content of the magazine. Surveys are an efficient way of collecting information from a large number of respondents. The questions can range widely to find out people's attitudes, values, opinions and beliefs. Katie's Café may conduct a survey to gather information about its customers and the types of products they wish to buy.

2.6.2 Show me

How to design a survey

Step 1

Decide what you want to find out. You need to be very clear about the purpose of your survey or you may not gather information that actually tells you anything useful.

Step 2

Decide whom you want to survey. Will your target group include both young people and adults, or just young people? How many people will you survey? Generally, the more people you survey the more reliable your results will be.

Step 3

Decide what method you will use to collect the data. Consider factors such as cost, speed and whether sensitive or personal information is involved. Survey methods can include:

- personal interviews
- printed questionnaire forms
- email surveys
- internet/intranet webpage surveys (using internet tools such as SurveyMonkey).

As a student (or group of students), personal interviews or questionnaires are likely to be the most useful methods available to you. You could distribute questionnaires to particular

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groups within your school; or you could interview groups of students at school, or members of the public at a nearby shopping centre.

Step 4

Design your survey. Start with a friendly introduction to encourage people to complete the survey. Work out your questions. Try to keep your survey short and your questions simple. Make sure the layout is attractive and easy to follow. There are two main types of survey questions:

- closed questions
- open questions.

Closed questions

These ask the respondent to select an answer from a range of options. They can include the following:

1. Rating scale — where respondents rate a particular product. For example, ‘How would you rate a particular brand of mobile phone?’

   Excellent   Good   Fair   Poor

2. Agreement scale — where respondents agree or disagree with a statement. For example, ‘How much do you agree with the following statements?’

	Strongly agree	Agree	Disagree	Strongly disagree
I am always prepared.				
I am a confident money manager.				

3. Multiple choice — where respondents can choose from alternatives. For example, questions that identify age or gender.

   Please circle one response.

Age	12–14	15–16	17–18	over 18
Gender	Male		Female	

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Open questions

These allow the respondent to record their own thoughts or ideas about an issue. For example,

'How much do you spend on fast food each week?' $_________

Step 5

Conduct a small trial of your survey to make sure the questions are clear and achieve your goals. Make any changes necessary.

Step 6

Conduct your survey and collate the results. These can then be analysed for patterns or anything unusual. When you analyse the results, consider working out percentages. For example: the females aged 12−16 surveyed spend 10 per cent of their money on computer games, while the males aged 12−16 spend 25 per cent.

2.6.3 Let me do it

Activity

2.7 Review

2.7.1 Summary

Very few people have more money than they need. Whether as an individual or a business owner, everyone needs to manage their money to gain the best value from it. Careful planning can provide enormous benefits at both the individual and business level:

- Individuals can improve their financial flexibility by saving money, allowing them to avoid debt and be prepared for unexpected expenses.
- Preparing a personal budget can assist us to achieve our financial goals.
- Longer term savings through superannuation contributions, home ownership or investment in shares can provide security for us as we get older and approach retirement age.
- Business owners need to keep track of all financial transactions so that they can determine the level of success of the business.

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- An important part of any business plan is the financial plan, which allows the business owner to create a budget, and keep track of establishment and operating expenses.

2.7.2 Your turn

Activity

learn MORE

Go to your Resources section for

Interactivity: Individual and business planning crossword

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